2020 Security Analyst Meeting Edited Transcript

Tuesday, March 3rd, 2020

CAUTIONARY STATEMENTS RELEVANT TO FORWARD-LOOKING INFORMATION FOR THE PURPOSE OF "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

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This transcript has been edited by Chevron Corporation. It is generally consistent with the original 2020 Security Analyst Meeting transcript. For a replay of the 2020 Security Analyst Meeting, please watch the webcast presentation posted on chevron.com under the headings "Investors," "Events & Presentations."

Transcript

Wayne Borduin (General Manager, Investor Relations, Chevron Corporation):
Good morning. I'm Wayne Borduin, General Manager of Investor Relations for Chevron. I'd like to welcome those of you in the room and those joining us by webcast to Chevron's 2020 Security Analyst Meeting.

Before we begin, a few important reminders. First, please take a moment to locate the nearest exit. In the event of an emergency, the hotel staff will provide further instructions. And please silence your cellphones and other electronic devices.

Today's presentation will contain four parts: We begin with a corporate overview by our Chairman and Chief Executive Officer, Mike Wirth. This will be followed by a review of our primary operating segments presented by Jay Johnson, Executive Vice President of Upstream and Mark Nelson, Executive Vice President of Downstream and Chemicals. Pierre Breber, our CFO, will discuss our approach to ESG and our financial priorities. We'll end the morning with a Q&A session. Before we begin, a reminder that today's presentation contains estimates, projections and other forward-looking statements. These statements are subject to certain risks, uncertainties and other factors that may cause actual results to differ. Please take a few moments to review the safe harbor statement that is available in your booklets and on our website. Thanks for your attention.

I'd now like to introduce our Chairman and Chief Executive Officer, Mike Wirth.

Mike Wirth (Chairman and Chief Executive Officer, Chevron Corporation):
Thanks, Wayne. Good morning and welcome everyone, both in the room and watching via webcast to Chevron's 2020 Security Analyst Meeting. Up here with me are Jay, Pierre and Mark. It's an exciting day for us as we intend to take you through how Chevron is positioned to win in any environment and how our strategy will continue to drive superior results and create value for shareholders. While you'll hear from a few of us on the stage, your management team represents 45,000 people across Chevron, who are dedicated to working incredibly hard every single day to provide the world with affordable, reliable and ever cleaner energy.

Today, you'll hear five elements of our story that differentiate Chevron from our competitors and position us to win in any environment.

We've built an advantaged and more focused portfolio. One that's delivering strong cash flow today and is supported by a resource base and investment opportunities that should continue to deliver for decades to come. We have unmatched financial strength, underpinned by an industry-leading balance sheet and low dividend breakeven price. We are disciplined with capital and remain committed to driving higher returns through the choices we make. All this creates a superior capacity to return cash to shareholders, our number one priority. And finally, this demonstrates Chevron's commitment to build long-term, sustainable value for all stakeholders. Today, you'll see how ESG is integrated throughout our business, with an emphasis on actions we're taking to be part of the solution when it comes to climate.

Pierre will speak in greater detail about our approach to the energy transition, so I'd like to discuss our ESG priorities more broadly and how they're aligned with our company's purpose. Chevron is committed to enabling "Human Progress" by delivering affordable, reliable and ever-cleaner energy in a resilient and sustainable way. Our ESG priorities

are aimed at protecting the environment, empowering society, and getting results the right way. This isn't new to Chevron. These priorities are deeply rooted in who we are and what we value - the Chevron Way.

And we're taking action. We were the first among our peers to issue a TCFD-aligned climate report. We recently updated our long-standing human rights policy. And we continuously invest in our talented employees and also in the communities in which we operate.

And finally, Chevron holds itself to the highest governance standards. Our Board of Directors is composed of exceptional leaders with diverse backgrounds, who are committed to the principles of risk management, transparency, accountability, integrity, and the creation of sustainable long-term value.

The foundation of our success is operational excellence, and it's the core of our company's culture. Strong safety and environmental performance go hand-in-hand with an efficient, reliable and profitable business.

As shown on this slide, we continue to outperform our peers in personal safety, spill prevention, and process safety. While consistently leading our industry is good, we're never satisfied. Our culture is one that continually seeks to learn and to improve in order to protect people and the environment.

Moving to the macro. First, let me address the short-term impacts of the coronavirus. No doubt, demand for our products is down. Our focus is on protecting our people and maintaining safe operations. At this time, our operations and supply chains are functioning normally. We're taking all appropriate precautions to keep it this way, but it's a fast-changing situation.

Moving to the long term, the demand outlook for our core commodities remain strong. Over the next 20 years, the world's population is expected to grow from 7.8 billion people to more than 9 billion. The world will continue to need more energy to support a growing population and an improving quality of life.

The chart on the left shows IEA's “Stated Policies Scenario”, an independent view of demand that accounts for known and expected changes in both policy and technology. Total energy demand is projected to grow by nearly 25%, and oil and gas by a similar amount, representing roughly the same share of the total energy mix in 2040 as it does today. Even in IEA's “Sustainable Development Scenario”, which is Paris-aligned, oil and gas is still expected to be about half of total energy demand.

And as you see on the right, the underlying decline in supply requires significant investment to replace 80% of production from existing fields by 2040 and also meet the growing demand for liquids.

Any way you look at it, the world will need more of what we produce, not less.

Despite these long-term fundamentals, short-term dynamics have led investors to focus their capital elsewhere. As an industry leader, Chevon recognizes this reality and is focused on self-help, not commodity prices, to deliver better returns and demonstrate lower risk, while also addressing ESG issues. We'll cover all three of these priorities today, starting with a commitment to improve returns on capital.

The chart on the left shows that we've led our peers in adjusted ROCE improvement since 2015. This is good progress. But good simply isn't good enough. We must do even better. The chart on the right outlines our commitment to exceed a 10% ROCE by 2024 at flat $60 Brent nominal prices. After adjusting for mid-cycle refining and chemical margins, this more than 300 basis point increase from year-end 2019 is expected to be driven by self-help in how we manage costs, margins, and capital.

So, let's start with cost and margin. Since 2015, we've reduced operating cost by nearly $1 billion while growing production. So, unit costs are down by about 25%. This progress was made in response to a declining price environment, and an industry-wide "reset" of costs.

With that foundation in place, we're now focused on even further improvement and transforming how we operate. We intend to reduce our operating cost by another $1 billion, achieving the new run rate by the end of this year. This reduction will be enabled by a more focused footprint, a streamlined organization, and deployment of technology to simplify work. We're inspiring a change in mindset by asking our people to reimagine the future ─ one with fewer barriers, more agile decisions, and higher expectations of ourselves.

At the same time, we expect to improve our industry-leading cash margins. We aim to enhance margin capture by another $1 billion by 2022, by further improving reliability, optimizing both Downstream and Upstream value chains, and improving productivity across the board.

In total, we're targeting more than $2 billion of cost and margin improvements, all through controllable actions and all without any help from commodity markets.

Turning to our capital program. As I already mentioned, a key element of our commitment to generate higher returns is capital discipline. That's why we've kept our capital program flat for three years running. And today, we're extending our current capital guidance of $19 billion to $22 billion out another year with a continued emphasis on short-cycle, lower-risk, higher-return investments.

As shown in the upper right, we're a leader in capital efficiency. We're able to sustain and grow cash flows with less capital relative to cash from operations. That's the winning formula when you're in a capital-intensive business. As shown on the lower right, we expect our non-cash affiliate C&E to return to historical levels as spending at TCO ramps down over the next couple of years.

Capital discipline is a choice and it becomes a habit. It's a choice that prioritizes returns over volume, and it's a habit that needs to be maintained across the price cycle. We are committed to both.

We're also committed to continually scrutinizing our asset base. In a portfolio that generates industry-leading returns, there's a high bar that investments must clear. The same is true for how we think about existing assets. As part of our capital allocation process, we continually review and evaluate our portfolio, and we're well on our way to achieving our three-year guidance on asset sales. Since 2018, we've had sales proceeds of about $5 billion. And we have clear line of sight to a number of potential transactions in 2020.

Our criteria for divestments is straight-forward. We screen for resource potential, relative economics, and sales value. After we close out the existing program this year, I expect we'll continue to see asset sales in line with our long-term history, which suggests plus or minus $2 billion on average per year. This is all part of continually building a stronger portfolio, which leads us to the future investment outlook.

In Upstream, it starts with advantaged, long-lived legacy positions across diverse asset classes. Many of these positions are facility-constrained, meaning with backfill projects, production has little-to-no decline. This is true for LNG, led by Gorgon and Wheatstone, which provide a platform to sustain production for decades. It's also true in shale and tight, anchored by our position in the Permian. Jay will show how we can grow and sustain production for multiple decades at relatively flat investment levels. And it's true at Tengiz, one of the largest conventional fields in the world, which is expected to grow to more than one million barrels of oil equivalent in 2023. Our portfolio is rounded out by Deepwater,

led by the Gulf of Mexico and heavy oil in places like Venezuela and the Partitioned Zone that have large resources still to develop.

A cost-effective reload of our exploration program should result in 11 impact wells this year in proven hydrocarbon basins, such as the Gulf of Mexico and Brazil. We expect successes that will result in developments during the second half of this decade.

Finally, in downstream, we have an attractive queue of petrochemical projects that will deliver returns and earnings growth over the next decade. And recent transactions in Texas and Australia should further integrate value chains and enhance margin capture.

In summary, I'm confident we have more than enough investment opportunity to sustain and grow cash flows through the next decade and beyond.

With these fundamentals in place, we're strengthening our ability to deliver value to shareholders, regardless of the price environment. There's no doubt that the top line in our industry can be volatile. That's why we maintain a strong balance sheet and have a business model that generates free cash flow even when prices are low. It's that simple.

Both are fundamental strengths enabling Chevron to focus on what we can control and reinforcing our ability to deliver cash to shareholders, even in the face of price volatility. As shown on the left, we have the strongest balance sheet among our peers. In both 2018 and 2019, we were the only company that simultaneously raised its dividend, funded its capital program, increased production, and bought back shares, all while further paying down debt.

The chart on the right shows Chevron's 2019 dividend breakeven versus the same group of competitors. We're leading here too, with a Brent breakeven price of $55 per barrel. Investors in Chevron don't need to worry about a weaker commodity price. We're built for it, which leads me to the next slide.

I'd like to now focus on Chevron's ability to continue to generate strong cash flow. Over the next 5 years, we expect to grow both production and margins, resulting in strong Upstream cash flow growth. In 2019, production increased 4.4% versus the prior year. Over the next five years, we expect growth greater than 3% per year. Production growth is lower in the early years, in part due to additional announced asset sales as noted on the slide and increases as the Tengiz expansion starts up. The chart on the right shows that we expect to grow our leading cash margin even at a flat $60 price. And in a higher oil price environment, the picture only looks better.

Growing volumes with sustained, peer-leading margins is a powerful combination for cash generation, which I'll cover on the next slide.

Ultimately, the true test of an advantaged portfolio is its ability to deliver value to its shareholders, and to do so without the benefit of a rising tide of oil price. The guidance we're sharing today demonstrates just that.

At a flat $60 Brent nominal price for the next five years, we expect to achieve nearly double-digit growth in operational cash flow per share. This, combined with our commitment to capital discipline, drives a doubling of free cash flow per share over that same time period.

Putting all this together on the next slide, we have the potential to return $75 billion to $80 billion to shareholders over the next five years. We expect to deliver this capacity at flat nominal prices while still investing in our business and maintaining a strong balance sheet. To be clear, no decisions have been made about future dividends or buybacks. This guidance reflects our ambition to increase returns on capital and to share the benefits with our investors. This doesn't

depend on higher oil prices. It relies on self-help through greater cost efficiency, continued capital discipline, and effective portfolio management.

In a higher price environment, our liquids-weighting creates strong upside leverage, and our demonstrated commitment to capital discipline means that this upside should be shared with shareholders. In a low-price environment, our flexible capital program, strong balance sheet, and low breakeven ensures downside resilience and continued leading shareholder distributions. The bottom line is a proven and sustainable commitment to shareholder return of cash throughout the price cycle. I'm confident in our ability to deliver on these plans and demonstrate to you that Chevron will be an attractive value proposition for years to come.

And now I'll hand the podium to Jay, who will cover Upstream's role in making this happen.

Jay Johnson (Executive Vice President, Upstream, Chevron Corporation):
Thank you, Mike. Good morning.

The photo is a picture of our Gorgon LNG plant, which includes the largest CO2 sequestration facility on the planet. This is just one of the many examples of how ESG is integrated into our operations. As I go through the presentation, you'll see other examples from across our business.

One of our key differentiators is our diverse and advantaged portfolio. The pie chart on the left shows the scale and diversity of our portfolio by asset class. Over the past several years, we've been focusing our footprint in key hydrocarbon basins around the world. To accomplish this, we've been divesting assets that have limited resource potential or struggle to compete for capital, while we've been reloading our exploration portfolio with new opportunities.

The result, which you can see on the map, is an attractive group of assets that includes legacy positions such as the Permian, Australian LNG, Tengiz and the Deepwater Gulf of Mexico. These high-value assets, complemented by on-going investment opportunities, are expected to drive returns and industry-leading performance into the future.

Our advantaged Upstream portfolio, combined with our commitment to operational excellence, drives our industry leading performance. As you can see on the left, we've maintained a relatively flat level of capital spend since 2016, and we expect this to continue. After another year of record production and a disciplined approach to capital, we're delivering strong free cash flow. As shown on the right, our focus on managing costs combined with our operating performance, results in peer-leading earnings per barrel, excluding special items.

We're proud of this leading performance, and we intend to sustain it. In the Upstream, we're streamlining our organizational structure. We're deploying new technologies, extending our value chains, and transforming how we work to drive higher returns.

Now let's turn to the Permian, which is one of the key engines that will drive our leading performance. We continue to see strong results from our Permian operations. For the fourth straight year, we've exceeded expectations, raised our resource estimate, and extended our production guidance. Today, we're updating our resource estimate to more than 21 billion barrels of oil equivalent, which is more than double the 9 billion barrels from just three years ago. Continued excellence in reservoir modeling, drilling and completion performance, and land optimization has allowed us to characterize more benches and better understand the potential of the basin.
Our Permian unconventional production is expected to reach over 600,000 barrels a day in 2020 and one million barrels a day in 2024, while maintaining relatively constant capital spending. As previously guided, we expect to generate positive free cash flow this year, and our focus continues to be on driving efficiency and delivering high returns.

We're also operating in a responsible, sustainable manner. As determined by Rystad Energy, Chevron is one of the basin leaders in minimizing flaring. Throughout our presentation, you'll see these banners at the bottom of the slides with more details in the appendix showing examples of how ESG is integrated into our operations.

Now let's turn to our well and cost performance. Our Permian performance is underpinned by our deep technical understanding of the geology, efficient execution of our factory and a relentless focus on cost. The dashed lines on the left-hand chart show our type curves improving in each of the last four years. The solid lines show our actual production for each year, validating both the improving type curves and our ability to predict well performance.

The chart on the upper right shows we expect to increase the lateral feet drilled per rig by more than 50% between 2018 and 2020. The chart below shows a continued reduction in unit development and production costs, driven by the gains in drilling and completion efficiency as well as improved recoveries.

Our focus on delivering results – below the ground, on the rigs, and throughout our operations is driving stronger free cash flows and higher returns for our investors.

Importantly, we expect the free cash flow and higher returns generated by the Permian to be sustainable for decades to come. With stable levels of spend, we believe our Permian production has the potential to grow and sustain at around 1.2 million barrels a day. With flat nominal prices, we expect free cash flow to rise to more than $4 billion a year.

The production and free cash flow shown in the charts are based on the development of only about half of our acreage and only a portion of the available benches. We continue to actively optimize our portfolio and delineate uncharacterized acreage to provide future development areas. While we initially target our best acreage and benches, additional developments are expected to benefit from previously installed infrastructure, technology improvements, and continued optimization of our factory.

What makes our Permian assets particularly attractive is that we can increase or decrease activity levels as desired to maintain our investment pace and cash flow.

An increasingly [important] part of delivering high returns in the Permian is maximizing margins across the value chain for crude oil, NGLs, and natural gas. The chart on the right shows our sales plan for Permian crude production. We're using our midstream and downstream organizations to extend and optimize value chains through equity positions, such as our recent Pasadena refinery acquisition.

As the production in the Permian continues to grow, we've secured advantaged crude takeaway and export capacity through 2024 to increasingly leverage global customers to maximize returns. We're also actively working to improve NGL and natural gas margins. Benchmarking continues to be a critical tool to ensure we're delivering leading performance. And our ongoing strategy is to deliver competitive operational and commercial performance and use our advantaged royalty position to drive superior financial results.

Now let's turn to TCO. TCO is a world-class asset that's expected to generate strong cash flow for many years. I visited Tengiz a couple of weeks ago and was pleased with the progress on the project. All pipe racks, utility, and gas turbine generator modules are now on their foundations. The project is 75% complete, and we're half-way through field construction. We are committed to deliver the project based on the updated cost and schedule estimates provided at the third quarter earnings call.

Our base business continues to perform well in Tengiz. And as shown on the chart, we've been able to systematically increase production, and 2019 was a record year at over 800,000 barrels a day. Since 2011, our TCO workforce has leveraged technology, improved reliability, and executed brownfield projects to increase overall production by 15%. In Tengiz, we're expanding a highly efficient, world-class operation, a legacy asset in our portfolio, that we expect will generate increasingly strong cash flow as project spending ramps down and production capacity increases.

Let's turn to Australia. Just as we've done at TCO, we're using a systematic approach to increase the reliability and production capacity of our Australian LNG facilities. Last year, we executed a planned turnaround at Gorgon that supports strong, reliable performance in the future. So far, we've achieved an initial 2% capacity increase at Gorgon and 7% at Wheatstone, and we're expecting additional improvements over time.

The upside potential isn't just limited to Gorgon and Wheatstone. We have 50 trillion cubic feet of discovered resource offshore Western Australia, and we're working to monetize it in the most capitally efficient manner.

Last year, we successfully started up the Gorgon carbon sequestration project, the largest of its kind in the world. And by the end of 2020, we expect to have sequestered approximately 4 million tons of CO2. The facility is expected to reduce Gorgon's greenhouse gas emissions by about 40% over the life of the project.

Let's move to the Gulf of Mexico. We're driving higher returns on our deepwater developments by focusing on reducing unit operating and development costs. In December, we announced a final investment decision for Anchor. The 20,000 psi technology being developed for Anchor is expected to enable the development of a number of other high-pressure prospects we've identified in the Gulf of Mexico.

We also expect to reach a final investment decision on Whale later this year. The project is currently in FEED and is leveraging standardized designs and best practices from other deepwater projects to enhance returns.

At Ballymore, we're currently assessing development alternatives, and we anticipate a final investment decision next year.

These projects, combined with a strong base business, provide a pathway to sustain production from the Gulf of Mexico portfolio over the next decade.

We've been reloading our exploration portfolio with positions in proven hydrocarbon basins over the past several years, and we've acquired exploration acreage in the Deepwater Gulf of Mexico, Brazil's pre-salt, and most recently, Egypt.

Our exploration program in the U.S. Gulf of Mexico is expected to deliver a strong queue of opportunities to add to the deepwater projects on the previous slide. We currently hold interests in 232 blocks with 62 active prospects, the majority of which are within tieback range of existing infrastructure. In Mexico, our deepwater portfolio has prospects in multiple plays and spans an area equal to about twice our total U.S. Gulf of Mexico holdings. In the Brazil pre-salt, we've acquired 11 blocks, which are roughly equivalent to 370 U.S. deepwater blocks. We have 11 impact wells in our exploration drilling program this year, including four in the U.S. Gulf of Mexico, two in Mexico and two in Brazil.

Mike indicated earlier that we have an attractive set of investment opportunities and see a promising future well beyond the 5-year plan outlined today. As you can see on this chart, assuming a stable investment level, our 10-year production outlook is strong and growing. This production on the chart is supported by a foundation of large, low-decline, long-lived positions including LNG, TCO, Deepwater Gulf of Mexico, the Permian and other attractive, ratable shale and tight assets, which more than offset our base decline. Importantly, the underlying assets are already in our portfolio and don't depend on license extensions or success in exploration activities.

Now beyond this production profile, we have an additional upside potential as represented by the orange wedge at the top. This production is a risked view of opportunities also in our portfolio that depend on future investment decisions, or success with exploration, or commercial activities. These include options to increase activity levels in the Permian and other shale and tight positions, the potential to ramp up production in the Partitioned Zone and Venezuela, exploration success in Brazil or the Gulf of Mexico, and extension of concessions that are set to expire within this period.

We are confident in our portfolio, and we remain vigilant for opportunities to high grade our portfolio, increase free cash flow, and drive higher returns.

Now I'll turn it over to Mark to discuss Downstream and Chemicals. Thank you.

Mark Nelson (Executive Vice President, Downstream and Chemicals, Chevron Corporation):

Thank you, Jay. Good morning everyone. It's a pleasure to be here, and it's a pleasure to discuss Chevron's Downstream and Chemicals business.

Let's talk about the three main businesses that make up the Downstream and Chemicals portfolio: Fuels Refining and Marketing, which is regionally focused on the U.S. West Coast, the U.S. Gulf Coast and Asia; Petrochemicals, which is built on cost-advantaged feedstock; and Lubricants and Additives, which is fully integrated from premium base oils to additives to finished products.

Our portfolio is tightly focused on areas of strength: quality assets, leading brands, and integrated value chains and technology. Where we choose to operate, we can compete with anyone, which leads me to the next slide.

Since 2016, we have led our integrated peers in earnings per barrel. Our 2019 performance slipped, as you can see on the chart to the left. Although we operated safely and without major incidents, weaker refining and chemical margins weighed on the segment's earnings and cash flow. As noted in the chart on the right, we have actions planned to drive our performance back to this leading position with a particular focus on three things: improved turnarounds with top-tier reliability, self-help margin improvement across the value chain from feedstock optionality to better product placement, and higher productivity with efficiency gains.

You'll see much of this planned improvement in our Fuels Refining and Marketing business, which consists of three tightly integrated value chains, allowing us to capture margin wherever it exists. On the U.S. West Coast, we've leveraged the strength of our integrated refining system and retail network to be the number one gasoline brand, and we're steadily expanding this position into Mexico. In the U.S. Gulf Coast, we continue to increase Permian equity crude at our Pasadena refinery, and we're expanding feedstock optionality at Pascagoula. In Asia Pacific, our refineries are strategically located to supply growing demand in the region, and we're strengthening our marketing positions through retail expansion in select Southeast Asian markets and the acquisition we recently announced in Australia.

Like in Jay's presentation, we've also included ESG activities that are part of our business. Highlighted at the bottom of this slide, you'll see that in California later this year, we will begin co-processing biofeed in an FCC, making Chevron the first in our industry to do so.

Now let's turn to our Petrochemicals business. We have an advantaged portfolio focused on three things: low-cost ethane feedstock, world-scale facilities, and proprietary technology.

Our U.S. Gulf Coast I project, part of our CPChem joint venture, continues to exceed expectations. After a successful start-up in 2018, our ethane cracker has been running 15% above design capacity. And we're currently evaluating opportunities to increase capacity an additional 15%. In Asia, our Petrochemicals business is tightly integrated with the world-class GS Caltex Yeosu refinery, which sits near key growth markets. In fact, we're making great progress on the GS Caltex mixed-feed olefins project, and we expect this new facility to start up in 2021 on schedule and under budget. In aligning with our strategy to invest where feedstock is advantaged, last year, CPChem announced two major capital projects in partnership with Qatar Petroleum.

Highlighted at the bottom of the slide is the fact that in January of last year, CPChem became a founding member of the Alliance to End Plastic Waste ─ the most comprehensive cross-value chain initiative of its kind in the world today.

Now let's look at our Lubricants and Additives business. Chevron is the only company with a fully integrated lubricants business.

We are a leading global producer of premium base oil and additives used in our own lubricants. In 2019, we expanded the number of base oil supply hubs and are producing the full range of premium base oils. And in 2020, we're bringing renewable base oils to market through a partnership with Novvi. Our Oronite business leverages 10 global locations to develop, manufacture, and blend additives. To meet the growing demand in Asia, we're constructing a blending and shipping plant in China, and we expect start-up in 2021. Leveraging our integrated position further, we recently launched an industry-first engine oil with a patented ultra-low ash technology. This proprietary technology significantly improves efficiency and fuel economy.

So to finish, with our Lubricants and Additives business, our Petrochemical portfolio, and our Refining and Marketing activity, I'm confident we're positioning Downstream and Chemicals to deliver strong financial performance for the company and for the shareholders.

Thank you. And with that, I'll hand it over to Pierre.

Pierre Breber (Vice President and Chief Financial Officer, Chevron Corporation):
Thanks, Mark. Good morning, everyone. I'm really happy to be here as CFO for the first time. I'm going to take you through 2 primary topics ─ one, our approach to ESG, and two, our commitment to return cash to shareholders.

Earlier, Mike talked about the importance of ESG to Chevron, and Jay and Mark covered important environmental and social matters in their areas of operations. Our most senior leaders and employees at all levels take pride in how we operate and in our contributions to society. We don't separate ESG from our business. It's integrated and interwoven throughout.

Shown on the left is a QR code for Chevron's new sustainability portal. The site covers our ESG efforts, in addition to other topics of interest about sustainability, including many aligned with SASB requirements. This is a new, convenient one-stop shop for all of Chevron's stakeholders to learn more about our approach to sustainability. On the right is a picture of our Climate Change Resilience report. It's aligned with TCFD principles. I think that you'll find it to be thorough and thoughtful. It also includes actions we're taking to be part of the solution to help the world achieve the goals of the Paris Agreement.

We have three focus areas to address the energy transition and a simple overriding philosophy that what we do has to be good for the environment and good for our shareholders.

The first focus area is to lower our carbon intensity. We have four reduction metrics, and we're the first among our peer group to set our targets based on equity ownership, not operatorship. Across the company, we're tackling the most cost-efficient opportunities, reducing the most carbon at the lowest cost.

Second, we're increasing renewables in support of our business. This is an important distinction. We're not pursuing renewables as a separate business because we see more value in connecting renewables with our core operations. So, whether it's wind power in the Permian or solar to our steam floods or biofuels in California, our renewable activities support our primary upstream and downstream businesses and do so economically.

The third focus area is our investment in future technologies. Successfully addressing climate change will require technology breakthroughs, and we're doing our part with Chevron's $100 million Future Energy Fund and our participation in OGCI's $1 billion fund. Beyond making venture investments, we're proud that in Australia, we operate three CO2 injection trains.

We take our fiduciary responsibility seriously. Our ESG actions must meet the expectations of both society and shareholders, which leads me to the next slide.

Reducing costs is a key element of our plan to improve returns. Mike talked about delivering cost efficiencies of $1 billion. As shown on the left, they're balanced across corporate and functional support groups and our upstream and downstream segments. Examples of work underway include streamlining our technical support center, reducing the number of upstream regions from 4 to 3 and rethinking our approach to project management execution. Cost always matter in a commodity business.

On the right, I show our improvement by segment. As a reminder, we adjust the 2019 starting point for a $60 Brent and mid-cycle refining and chemicals margins. Upstream's earnings improved primarily due to greater capital efficiency – as our prior capital depreciates, our new investments have higher returns. Downstream's improvement is driven primarily by cost and margin self-help. And finally, there's an accretive effect because at $60 flat nominal, we expect to return more cash to shareholders over five years than our book earnings, which leads me to our financial priorities.

They haven't changed and they're the foundation of everything that we do. We've increased the dividend paid per share for 33 years straight. We've invested in the business to reach record Upstream production. Our balance sheet is second to none in the industry. And we bought back shares 13 out of the last 17 years. You know us by our track record. You can count on us to deliver.

These 2 charts show dividend growth and share count for Chevron and its peers during the last five years. It's been a tough period for our industry. Dividend increases weren't competitive with the broader market and share counts increased. But Chevron managed through this period better than most, delivering competitive dividend growth and we actually reduced our share count. And the best is yet to come. Mike showed that the next five years could look very different from the last five with dividends expected to grow at leading rates and a sustained buyback program materially reducing share count. You've seen the start of this with our over 8% dividend increase in January and now several quarters at our $5 billion annual buyback rate, adding up to a total shareholder yield over 7%.

We're not satisfied with leading our integrated peers. We're focused on being a compelling investment relative to all equity alternatives. And looking forward, I'm confident that we'll compete very well. The charts on this slide show that Chevron leads every S&P sector in dividend and free cash flow yield and is priced at about half of the market. To the generalist portfolio managers out there, if you're looking for cash, Chevron is the place to be.

With that, I'd like to hand it back to Mike to make some closing remarks.

Mike Wirth (Chairman and Chief Executive Officer, Chevron Corporation):
Thank you, Pierre. Before moving to Q&A, I'd like to recap the headlines from today's presentation.

First, we're taking action to expand returns through self-help, margin improvement, efficient capital allocation, and portfolio optimization, the net result of which is expected to be double-digit ROCE by 2024 at flat oil prices. Second, we're lowering the overall risk of our company and therefore, your investment. We have an unmatched balance sheet, low breakeven price, and have extended our flat capital guidance for the next five years. Third, with growing volumes, growing margins, and a highly efficient capital program, we expect to significantly grow free cash flow. Finally, we're translating all of this success into value for our shareholders with leading cash returns through the price cycle. Between a growing dividend and a sustainable share repurchase program, we expect to distribute $75 billion to $80 billion to shareholders, resulting in a 7% total yield.

In summary, we're starting from a position of strength and expect that momentum to continue, even in a flat price environment. Chevron has a unique, differentiated, de-risked, and compelling investment proposition that's delivering results today and is well positioned over the long term. I appreciate your time today and your interest in Chevron.

Before we begin Q&A, just a couple of guidelines. As you raise your hand and I call on you, please identify yourself and your firm. Please limit yourself to one question and one follow-up, so that we can get to as many people as possible. And with that, we will go to Q&A. We'll start with Phil.

Q&A

Philip Gresh (JP Morgan Chase)
A couple of questions. The first one is on the Upstream production growth outlook. I appreciate all the details through 2030. If we look out to 2025, the organic opportunity set, you talked a little bit about that as one of the key growth drivers. I was wondering if you could elaborate more on those, particularly through 2025. I understand that beyond 2025 [production growth] requires exploration success and other factors, but what drives the growth through 2025 in that particular wedge? And when you were talking about the capital budget of $19 billion to $22 billion, does that include money spent for the organic opportunities as well or would that be incremental spending?

Mike Wirth
Yes. Let me put a front end on that, Phil, and I'll have Jay fill in some color. Everything shown on that chart is already within our portfolio, so there's no capture required at all. In fact, you can see that in the blue wedges (base business), which are not conditioned on anything other than a decision by us to invest - you've got growth. In the orange wedge are risked growth opportunities within our portfolio. These would be PZ, and Venezuela. It would be ramping up in Argentina or Duvernay or Permian and could include concession extensions or exploration success. But they are within our portfolio and all conditioned on certain things. So, through 2025, it is largely things that are in flight and then decisions to be taken beyond that. Jay, maybe you want to fill in just a little more detail.

Jay Johnson
Yes. As I said, everything in blue and below is already in the portfolio. The biggest drivers are going to be the start-up of production from FGP in TCO in 2023 but also a continued growth in our shale and tight, predominantly Permian but also Argentina and Kaybob Duvernay, and pretty low decline rates overall in our existing base business. The investment that you're talking about in the orange is risked, but we expect it to be within the stable investment levels that we've talked about. So, when things like TCO come off, and other investment programs come off, we would expect some of these opportunities to fill in behind. Those would be the ones represented in the orange.

Pierre Breber
Let me just make sure and answer [the capital spend question] directly. So, $19 billion to $22 billion is assumed for all wedges. This is a flat investment profile. Prior to 2025, additional shale and tight would be the most likely production that would add in that time frame. Because exploration would be in the back half of the decade.

Philip Gresh
Great. In the downside case for the oil price, given the volatility we've seen recently, how do you think about what levers you pull relative to buybacks or Capex? How do you think about managing that?

Mike Wirth
First of all, we talked about the balance sheet, which is second to none, 16% gross debt, 13% net debt, well below the levels that we have indicated would be comfortable levels given our capital profile and to sustain our credit ratings. So, in an environment like we're in right now, we're doing just fine. In a sustained lower price environment, we can lean on the balance sheet for a while and take gearing back into a range that's probably a more appropriate level.

Pierre reiterated the financial priorities. And share repurchase is a fourth priority. If we're in a sustained, extended period of low commodity prices, we can attenuate that. We've also got the capital program. So, we'd stay very consistent with the capital priorities that we've outlined.

Okay. Next question. Doug?

Douglas Terreson (Evercore ISI)
Today's plan illustrates a value proposition that seeks to become competitive with S&P 500 on dividend and free cash flow yield and return on capital, and that's a good thing because it's differentiated versus your peers. On this point, one of Pierre's last slide showed some segmentation on return on capital between upstream and downstream. My question is twofold: First, do you have any additional functional and geographical specificity that you can give us on these return on capital gains? Meaning, I think you have 5 upstream assets in 10 areas, or is it proportional? Second, execution risk has been pretty significant for the super majors during the past decade. Can you talk about how Chevron plans to enhance outcomes in that area? A little more specificity on the return on capital gains and how do you manage execution risk better in the future?

Mike Wirth
Actually, Doug, not only do we seek to be leading versus the S&P, Pierre showed that on yield - whether dividend yield or free cash flow yield, we're leading today, and we intend to improve that. You're a student of compensation in our industry. We count the S&P 500 as a competitor in our LTIP program, and that's somewhat unique in our industry, but we are focused on the broader market. Returns will improve across the portfolio of certain assets more than other. I'll let Pierre elaborate a little bit on that. And then I think Jay can elaborate on capital project risk.

Pierre Breber
We showed the returns improvement in two ways: Mike showed it by bucket, and then I'm showing it by segment. So, you can triangulate around it. In the Upstream, it's largely driven by capital efficiency and a big chunk of it is the Permian. We showed in the second quarter call, book returns in the Permian are more than 20%. We reaffirm that today. As we invest more, that's accretive to a portfolio that's targeting 10%. We also have some good investments in Australia. They generate a lot of cash. They're single digit returns. So as those depreciate off, that increases your book returns. If you look to the Downstream side, you see the cost and margin benefits that that Mark detailed on his slide drive most of it. There's value chain improvements across both segments. There's reliability improvements and productivity improvements across both Upstream and Downstream. That's the lion's share of it. Again, there is this

accretive effect, which I talked about, that we're going to return more cash over five years and five years of book earnings. The way the math works is your book capital employed goes down even though you're growing the value of the enterprise, and that's also accretive to returns.

Mike Wirth
Jay, you want to touch on project execution.

Jay Johnson
Sure. When you look ahead, Tengiz, of course, is in full execution and ramping down as we look at the years remaining. The bulk of the other capital projects we have are probably Deepwater in this time frame. And the deepwater projects, we've been really focused on increasing standardization. We're doing the same thing repeatedly. We've been working with industry groups to develop the 20,000 psi technology, so that's standardized subsea equipment and architecture. That's been helping to bring the unit development costs down significantly. We continue to target roughly $16 to $20 a barrel for that. Because those are built in shipyards largely and then brought out and installed, most of the risk is really in the drilling campaigns, and we've been doing very well with the drilling in the Deepwater.

The rest of our capital is really tied up in shale and tight, which is very ratable, repeatable. As we've shown, our unit development costs have been continually coming down with improvements in both the optimization of the factory, some of the technology advancements we continue to make, and digital is playing a big role in some of the insights that we gain in how to do better completions with efficiency and how to start wells up. We get criticized sometimes for being slow on our early production, but that's because we're really looking at ultimate recovery and returns. So, we restrict wells in the early days to make sure that we get the ultimate recovery we're looking for as we bring them on.

And then the last is that we're seeing an increasing number of base business projects. And these are usually small, incremental projects that build on existing infrastructure. But because they're really leveraging that infrastructure, we get a very high rate of return on those types of projects, and they're becoming a bigger component of our overall capital investment.

Mike Wirth
Doug, you've hit on 2 key points for investors: returns - we're committed to improving returns at flat prices; and then risk. I'm going to helicopter up above project execution risk and you look at the strength of our balance sheet, you look at the low dividend breakeven and you look at the ratable, flexible capital program and the capital discipline, all of those are risk mitigators at an enterprise level that as we improve returns and mitigate risk, I think, strengthen the value proposition. Sam?

Sam Margolin (Wolfe Research)
My first question is about renewables. You have a return on capital employed focus, which makes renewables prohibitive unless you're integrating them into your existing business and it's a return enhancement. But one of the attributes of ESG right now is that every sector is under pressure to decarbonize, including energy-consuming sectors, which maybe add some visibility to renewables returns in at least at a rate-of-change basis. Theoretically, Chevron would be a company that energy consumers would want to work with and would be a first choice as they pursue lower carbon solutions. So, my question is, are you seeing any of that in the marketplace? Do you see a case in the next few years where renewables become more attractive because you have some visibility afforded to you by customers and by the energy-consuming side of the market?

Mike Wirth
We welcome the future and we welcome a lower carbon future. We intend to be a big player in a low-carbon energy future and in the future of energy. As Pierre said, we need to do two things. This is the challenge: how do you invest in

things that are good for the environment and good for shareholders? Right now, for us, renewables create the most value when we integrate them into our existing operations. But we're mindful of the opportunity for new business models and new technologies. We're investing in new technology, and we're looking for ways to increase renewables within our portfolio. Mark talked about being the first company ever to feed bio feedstock to an FCC. We're working on renewable natural gas in California with dairy farmers.

So, we are looking for the value proposition that could extend down the value chain and integrate into our business in a way that we think is sustainable, affordable for consumers and economically competitive within our portfolio. We intend to be disciplined on capital investment in our existing business, that you well know, and to be disciplined on investment into the emerging businesses that come at us over time. I can't point to a specific technology right now that I think is going to scale, but we're working hard on all these things. I think as we learn more and markets evolve, you're going to find us there. A follow-up question?

Sam Margolin
Yes. Follow up on the balance sheet connects to stepping out into other verticals. You're already leading in a lot of return and cash metrics. We're coming out of a 2-year demand environment that's been sub mid-cycle. You performed on free cash flow through that very well and rates are going lower. Why isn't this an environment where you'd want to deploy leverage either through something inorganic or maybe a more aggressive buyback or return cash to shareholders?

Mike Wirth
Well, I'll deal with the inorganic question and I'll let the CFO talk to the share repurchase question. You're not going to be surprised. We're always looking at opportunities. But we've laid out a plan extends over the next decade. We've got plenty of captured, organic opportunities within our portfolio. Anything we would look at would have to be better than what we could already invest in today. And that's a pretty high bar. Most of you followed events of the last year. We're not going to chase something just for the sake of landing it. We're only going to do something if we think it adds value to our portfolio.

You're right. We're in a period when there could be opportunities out there, but we won't do a deal just to do a deal. It's got to be something that actually is good for our shareholders. And we would come to you and make the case if something like that were to come along. I'll let Pierre talk about share repurchases in this environment.

Pierre Breber
We want to sustain a buyback program over the cycle. I think that's the shareholder feedback that we have. We bought back - 13 of the last 17 years. We bought back shares under $90, which is close to the daily average during that 17-year period. We could do a little bit of acceleration if the stock price is weak, but fundamentally we want to be buying when prices are high and when prices are low. We'll get to those leverage points over time or depending on how the commodity market plays out. But the downside of a big buyback is we have shareholders who question the timing, and they really want to see our ability to sustain it through the cycle.

Mike Wirth
Neil?

Neil Mehta (Goldman Sachs)
The first question I had is around Tengiz, Jay. It sounds like it was a mild winter in Kazakhstan and you guys are making some good progress here. So just give us the lay of the land and the confidence intervals that you have around execution of the project from here.

Jay Johnson
Yes. I was just there, and we had a good visit, and we monitor the project closely. We did have a mild winter. We made a lot of progress through the winter that we might not have otherwise been able to do if it had been colder. And there's two main fronts that are still going on: One is the execution in Tengiz. We restacked all the modules that came through last year's shipments and did that quicker than we thought we could and got all the modules we needed onto their foundations. We finished all the structural foundations, so they're all there waiting now for the remaining modules. We've seen our productivity continue to stay strong.

We've brought in some new visual tools. And this is where digital continues to give us these insights that we never had before. We've been able to now see all the work packs - when they're required, what sequence and what status they're in, in very simple-to-see charts. It's helpful to me, but it's particularly important for the people on the ground to make sure we're executing the right work in sequence, and we're closing things out as we go. It's very easy to leave a trail of almost finished things behind you. We're really focused on closing stuff out and moving it through.

We were also able to bring the first facilities that are inside the project online. We've been through now the entire documentation process and all the way to start-up for some of the wells and gathering system. What that's allowed us to do is test all those processes to move from mechanical completion to commissioning to start-up. And as always, it's rocky the first couple of times. I was glad we're able to get through that and really work on the process. We'll have the workflow smooth for the bulk of the activity with 3GI and 3GP.

In the shipyard, we're on our final set of modules. This year is our final set of movements. As you remember, there were three seasons of shipping modules. The first season, we brought 87 packages across CaTRO. Last year, we brought 235 across CaTRO. This year to finish the program, we have to bring 87 across. So, we've really broken the back of that now. Our logistics system is working quite well. The ice in the Caspian is breaking up early so we may be able to get an early start on it.

The fabrication work in Korea has progressed very well. We're about a little over 90% complete with this year's modules, so we're rapidly approaching mechanical completion. We're doing some of the commissioning and testing in the yards before we bring them across. We have about 11 or 12 modules left to de-stack, so that they can be transported and brought to site.

The one other thing that's really working well is the dimensional accuracy. As we restack the modules, as we put them on the foundations, we are seeing tolerances spot on in terms of the alignment. That's really reducing some of the risk of rework and other things that we are concerned about. So, we've got a lot of work to do in the field but I would say at this stage of the game, we are on plan with all the expectations we gave in the third quarter call: cost and schedule-wise, and we are very focused on continuing to execute to that plan.

Mike Wirth
Do you have a follow-up, Neil?

Neil Mehta
Yes. Mark, this might be a follow-up for you here on the downstream side. And what's your multiyear outlook for both the chemicals and the refining side of the business? Obviously, there's a lot of near-term volatility around supply adds and some of the demand checks that we're seeing in the market. But underpinning the assumptions that are embedded in the slide deck and the free cash flow profile that you anticipate, what are the assumptions that go into the market as we do think about the transition?

Mark Nelson

If you step forward, I believe this is a good business that can get better. We certainly have experienced some lows on the refining and petrochemical margins side of the business. When you looked at our assumption, we took a 7-year average. It's kind of mid-cycle margins. When you take that and the actions that we're planning, which we have line of sight on all, I would argue that this is a mid-teens return business. It has been over the long haul.

Mike Wirth
Okay. Ryan?

Ryan Todd (Simmons)
Maybe a question on the Permian. Clearly, there'll be a lot of flexibility in the business. You have a lot of resource depth. Can you talk about how you arrived at the long-term growth outlook, the free cash flow, and spend outlook that you have for the Permian resources given the flexibility in either direction? Is it the right balance between volume growth and free cash flow generation? From a resource depth point of view, you have an outlook out there to 2040. Do you have sufficient resource in hand? In the past, you've talked about assumptions on resource assumed across a certain percentage of your acreage footprint. How much does that assume at this point from an acreage point of view?

Mike Wirth
I'm going to stay at a high level. This is a case that we put forward to illustrate the potential of this. A question that we get often is how durable is your position? Are you going to be free cash flow positive? And how long can it go? Doesn't it all just decline out from underneath you?

I hope you were paying attention to Jay's comments. He said we've only characterized about 50% of our acreage. He said we've increased the resource for the third consecutive year now to 21 billion barrels. At these production levels, 1.2 million barrels a day, that's about 440 million barrels a year out of a 21 billion barrels resource. So, there's lots of longevity. And we are still characterizing acreage laterally and benches.

We can increase on this. We can attenuate from this. Depending upon then current circumstances, if you pull down capital spending, the free cash flow widens out. If you put a little more into it, the production goes up. So, you've got tremendous ability to dial this portion of our portfolio up or down from an activity level, from an investment level, and from a cash generation level as we go forward. The point here was really to demonstrate the power of that within our portfolio, which is something different than we've had historically. We've got a lot of well locations beyond the end of this time frame on the slide here. So the intent is to address the question about [the Permian’s] longer term -- do you have the depth and how could it behave. Follow-up?

Ryan Todd
Yes. Following up on Sam's comments earlier. On the ESG front, there's certainly a perception in terms of where the U.S. integrated and the European integrates fall on this spectrum. You've referenced a lot of things that you're doing internally across your operations. When you look at the difference between you and your European peers, do you think the difference is more on substance or on messaging? If it's on messaging, is there a benefit to you guys being more overt in terms of characterizing and aggregating a lot of things that you're doing? And if it's on substance, is there a risk that you miss out on longer-term opportunities by allowing some of your peers a longer head-start?

Mike Wirth
Everybody is trying to be part of the solution here. I see my peers at the other companies quite often and we talk about this issue a lot. Everybody is committed to addressing the big challenges. And it's the dual challenge of more energy for a growing world and reducing the carbon footprint. People are going about it a little bit differently and I don't think that's a bad thing. I think that's probably a good thing. Certainly, the European companies have made longer-term aspirational commitments. What we've done is given you things that are very tangible, here and now, that we're doing today. It's a

little bit like my message that we're not asking you to wait for the cash flow. We're showing you the cash flow. We're delivering you the cash flow now.

We showed reductions in oil greenhouse gas intensity, in gas greenhouse gas intensity, in flaring, in methane emissions, commitments to integrate renewables that we can be held accountable to. We've aligned these things up with the stocktake dates for the Paris Agreement. We are taking actions and delivering today. Whether or not there's a pathway to some of these long-term aspirations remains a question. Certainly, if you listen to people and you read the details of what they say, they're careful to point that out. So, we've chosen to get after it now, to start delivering now, to get on the path of reducing greenhouse gas emissions. And we are doing a lot and we're delivering a lot. I think we're trying to create more transparency with some of our comments today. I encourage you to read the appendix, which has even more information. Okay. Roger.

Roger Read (Wells Fargo)
I'd like to ask is on the cost savings, the $1 billion by 2021, another $1 billion thereafter. How did you come up with the $1 billion and the $2 billion as your goals? What does that represent as a percent of potential savings over time? And what are some of the benchmarks we should look for and you're thinking of internally as you measure that? In other words, people can always defer spending for a year, and you make 2021 look good, but then it's a challenge the next year. So, I'm curious how you're looking at that and thinking about that long term.

Mike Wirth
Appreciate the question. It's why we anchored our returns improvement number a little bit further out there because you can't just move the shells around and try to hide the pea. We've got to find a way to actually improve and sustain those improvements, and it will show up in returns. We're not banking it on prices. We're banking on self-help. $1 billion is 5% of our operating cost. That is doable. Within a year, we can get after and we can get that done. $1 billion in margin capture after another year requires some performance changes in assets along value chains. I think those are both reasonable.

That's not enough to get us to a 10% return from where we start today. We've got more work to be done. So, we chose to lay out a couple of near-term waypoints -- end of this year, and end of next year. And we'll continue to talk about progress in meeting those and the things that it'll take as we go further towards that return. Frankly, 10% return on capital employed is a nice improvement from where we are today. But in my mind, it's not as good as we need to aspire to, so that journey is one that we will continue to be on. Follow-up question?

Roger Read (Wells Fargo)
Let me say one thing, just as a statement, thanks for doing $60 nominal instead of a real price. That's definitely a help. Second thing, as you think about asset dispositions or potentially the inorganic additions within this overall decarbonization, renewable approach to the world, does that favor ultimately gas over oil? Or does it disfavor certain oil assets? How should we think about that as we're evaluating assets that you may dispose of or as we think about that [asset] might look like an attractive asset but doesn't score well from an ESG standpoint?

Mike Wirth
Our primary focus on portfolio decisions is financial performance and returns. You could change the carbon footprint of your profile by changing your asset mix, and you could move higher emission assets to less responsible operators that won't have commitments to reduce the intensity of those operations. And guess what, the world hasn't reduced greenhouse gas emissions. You may make yourself look better, but you're not really contributing to solving the problem. So, it's the reason why across our entire portfolio, we've chosen to set these targets.

Pierre made an important point. It's across our equity position, not just our operated position because you could also improve things by just moving out of operatorship on your carbon-intensive assets. So just as you look for us to deliver financial performance out of everything we've invested in, we look to ourselves to reduce carbon out of everything that we've invested in. And we're not going to play a shell game with our portfolio to put ourselves on a trajectory. We're going to hold ourselves to doing the real work to create meaningful reductions in emissions. Okay. Paul.

Paul Sankey (Mizuho)
Mike, in the past, you had really four mega growth drivers, which would have been LNG, Kazakhstan, Permian, Deepwater. And it feels like now you've not got a growth driver in LNG and there's more concentration in the remaining three. You've obviously got an exploration program in Deepwater. I guess the question is partly an inorganic question. Clearly Anadarko addresses some of those long-term issues with the Mozambique potential or are you stepping away from an LNG mega project next generation? I think it also goes to Phil's question about the 2025-plus.

The second question is can you give us comfort that you really do have the acreage in the Permian to go as long as you've illustrated here? And can you characterize how you manage that? Because I would assume that it means that you're holding back some great acreage for the future. Or are you assuming that technology will allow you to improve the less attractive acreage now for future development?

Mike Wirth
A couple of questions there. First, on LNG, we've got a big LNG portfolio today that we need to make better. Pierre talked about improving returns. I think people are familiar with the fact that our investments in Australia cost more than we initially premised that they would. So, improving returns in Australia is job one. We're doing that through better reliability, better performance. Jay mentioned that Wheatstone is up 7% on production, Gorgon 2%. There's more upside that we'll find there. That's really the first opportunity for us in LNG. The second is ullage and other facilities in Australia. We've got a lot of gas in Australia. There are other infrastructure opportunities to move that gas through without new capital investment. We will look at other opportunities to expand our LNG portfolio, but they have to be the right ones. Certainly, today's market is exhibiting the characteristics of commodity markets, where supply comes on in big tranches and demand grows incrementally. We need to invest in low-cost, highly competitive supply that will work through the cycle. We'll continue to look for those things, but we're in no hurry to do anything there. So, stay tuned. I think, frankly, everybody who's looking at making FID decisions on LNG is going to have to be thoughtful about when and how they step into that market.

On the Permian, we've got lots of depth. We are developing the better acreage first and the acreage we've characterized. So, as we characterize new acreage, sometimes we're pleasantly surprised that things that we had assumed might not look as good as they do turn out to look pretty good. But we've got a lot of acreage that we're still methodically going through and characterizing fee acreage. We don't have to be in any hurry. We don't have to drill to hold it and we've got multiple benches. On my most recent trip out to the Permian, I learned that a few years ago, what looked like an area that might have two or three benches that would be economic had several additional benches that were now economic as we understand them better. Our approach to development is to get the surface infrastructure in place, and then fill it up. As that production starts to open up ullage, we go into the next benches. So those benches only have to carry well cost. They don't have to carry surface cost. Surface investment is largely amortized or at least partially amortized at that point. Drilling and completion techniques get better, technology improves recovery, and what might look a little less attractive today leverages brownfield economics and tomorrow's technology. We're learning. It's vast and it's getting bigger and it's getting better is what I would say.

Pierre Breber

Add to Ryan's question, the capital intensity doesn't change over time. In other words, it's a case that's a plateau case, but it's also a flat capital case because, as Mike said, the future investments don't bear as much facility investment as the early ones do.

Paul Sankey
The follow-up is you were prepared to make a major bid last year. Everything is half the price now than it was then. Is there anything that hasn't made deals more attractive here? Surely, the environment is highly attractive to do something compared to where we were only a year ago when you were already prepared to do something.

And secondly, I think the analogy, Mike, was something to do with the San Antonio Spurs and still wanting Durant -- now you can tell I'm English when I start talking about this stuff. But what would you now hope to get? Because obviously, Anadarko had a very big footprint with a pretty high G&A. I would assume that stuff in the Permian, for example, has just become outright more attractive based on the equity price declines that we've seen.

Mike Wirth
I'm not going to speculate, Paul. Thanks for the interest and observations on the market. We'll continue to watch, and we'll come back and talk to you if we have anything that we're interested in. Paul?

Paul Cheng (Scotiabank)
Two questions for Jay. Deepwater, some of your competitors believe the cost structure has gone down enough. On a full cycle fully loaded, they could be economic at $40, $50 Brent. Do you subscribe to that, including exploration and everything? When we're looking at your Anchor project, maybe I'm wrong, but at $60 oil, I don't see it better than 10%. So why rush on that project and why not wait? Do you really have a first-mover advantage on that? The second question is in 2019, your U.S. [reserves] revision seems to be quite a negative big number. What are the drivers? Obviously, one year doesn't make a trend, and reserve booking is peculiar oftentimes, but what's really driving that negative revision to be so big in the U.S.?

Jay Johnson
On the Deepwater, it has a high initial cost when you're putting in the foundation project. That's one reason why we're so interested in tiebacks and the ability to pull additional exploration discoveries back into existing facilities. Ballymore may well be one where we can do a tieback. The technology that we developed and proved at Jack/St. Malo is really what starts to underpin our ability to reach out further with the subsea pumping. That has been proven to be very reliable and very high performance, so it's worked well for us as we expected.

With projects like Anchor, we're working to get our initial unit development costs down into that $16 to $20 range. Anchor is just a little bit higher as you look at the cost to develop the 20,000 technology is sitting all on that one project. But it is technology that we think can to be applicable for a range of potential prospects that we have in the Gulf. Of course, once you've developed the technology, now it exists. We've done that through an industry consortium, so it is an industry standard. It brings down the cycle time on acquiring these new facilities. We've moved to a standardized concept, so this new standard facility that we'd be using for Anchor is a similar facility that we would just replicate for other deepwater developments, particularly in the U.S. Gulf of Mexico.

The third thing is there are incremental opportunities once we put a platform in, not only in terms of the tiebacks that could come to it but also in terms of infill drilling programs, additional developments like we did at Jack/St. Malo, where we maintain that production profile for a much longer period of time. Those all add incremental economics which are really attractive to the foundation project. We're working to make the foundation project attractive enough and then we really look to enhance the value once it's in and we're able to either bring in other resource or expand the existing field through waterfloods, drilling programs, things like that. The other component that's really changed is our unit operating

cost have dropped dramatically. And we're now around $10 a barrel on our operating costs. So, when you put those unit development costs with the operating costs, you can see it's a pretty powerful combination.

Mike Wirth
Paul, on the reserves question, one-year reserves are not a great indicator. You've got to look at multiple periods. This year, we had a couple of big things. One, we chose to cease funding the Marcellus, so we had some reserves in dry gas in the Marcellus that came off the books. We've optimized our Permian program, which has moved some of our forward plan into areas where we've got less well control, we've got less data, so we don't book reserves until we've actually got the data to do that. Trust me, the resource is there -- it will become reserves. It's really a one-year phenomenon. Jeanine, I saw you had your hand up.

Jeanine Wai (Barclays)
My first question is on the Permian and my second question is on divestitures. On the Permian, following up on some of Paul's and Ryan's questions. About mid-year, you provided a forecast on well productivity and cost and you did a benchmarking thing. It was on a boe per foot basis, you anticipated that 2019 would be about 10% better than 2018 and then 2020 would flatten out. We just wanted to see if you had an update on where you landed on that in 2019 and what's embedded into your forecast that you provided for the Permian. You also had a benchmarking study against your non-op partners, and you were closing the gap in 2017 and 2018. I'm just seeing if you got there in 2019.

Jay Johnson
When we look at the Permian, what we're ultimately looking for are unit development costs and unit operating costs. All those other benchmarks that we do are next levels down to really understand performance within each given component. I would say we are very competitive on our facilities, on our drilling, and on our completions particularly in the Delaware Basin but also ultimate recoveries in the Midland Basin. We put it all together, we are staying with the best in the basin. Our goal is to be competitive. We don't expect anyone to be able to stay in the lead for a long time because it's a rapidly evolving space where everyone is getting better. But what we want to be is fully competitive so that when we put the royalty position on top, then we're able to really deliver superior financial results and that's what we've been able to do.

Mike Wirth
You had a divestment question?

Jeanine Wai
A quick question on divestitures here. Following up on Ryan's questions, you rolled forward a lot of the other targets. The divestiture target, I think you kept the same. It looks like you're on track to make that by year-end. So approaching the question from a margin perspective, what is your appetite to do more divestitures - we noticed that the speed has picked up lately? In terms of improving margins, taking a little bit of pressure off the Permian to grow, what is your appetite to do more divestitures beyond the target that you already set out?

Mike Wirth
We're not divesting to generate cash. We're really high grading our portfolio for investment competitiveness and performance. And so that's a normal part of our business, and as I indicated that you can plan on what I would call background-level activity, which is on average, plus or minus $2 billion a year historically. We'll head back to that. But it's really about continually high grading the investment opportunities. Jason?

Jason Gabelman (Cowen)
First, on the exploration opportunities, it seems like a big part of the story in the second half of the decade and addresses some of the concerns around resource anxiety investors have. Can you just talk about what gives you

confidence in those blocks? Are there specific regions that you have higher confidence in? Secondly, on the Permian Basin. A couple of years ago, you were investing $3.3 billion. Last year, it was $3.6 billion, now it's $4 billion to $5 billion. So, I know you said flat a few times, but it does seem like capex is actually moving higher. Can you talk about what's causing that? And what gives you confidence that now $4.5 billion is the range that you could sustain moving forward?

Mike Wirth
So, exploration, we're talking about Mexico and Brazil --- proven hydrocarbon basins. There are shows, there are seeps, there are structures. There's working petroleum systems that give us a high degree of confidence. I would not overestimate how much the back half of that is exploration dependent. There's a whole host of things within that orange wedge, any one of which could be significant, and we've risked them all down. So, exploration is just one of many things that we've got in the back half of that.

On the Permian, the good news is because, as Jay said, we're going to be drilling 50% more feet per rig, we're getting a lot more done with less in terms of inputs. You need more pipe, you need more sand, you need the completion. So as our program gets more efficient, we're completing a lot more activity. Some of that is taking capital up. But we're able to move that up and down, and there's a high degree of flexibility to control that. We're running fewer than 20 rigs right now and we could be running fewer rigs in the second half of this year than we're running in the first half of this year because we're simply getting so much more accomplished out of the fleet that we've got there. We're managing this and learning. The bottom line is performance continues to improve. Doug?

Pierre Breber
It was a 20-year capex range also, so by putting $1 billion [$4 – 5B range] on 20 years doesn't seem unreasonable.

Douglas Leggate (BofA Merrill Lynch)
I've got two quick ones. First, on the Permian, I'm looking at Slide 7 of the E&P deck. It changes clearly on a quarter-to-quarter basis, but it looks like you're about 370,000 barrels a day of black oil in 2024, which would put you at about less than 40% oil in your mix. So, I want to make sure we're reading that right. I think previously you've said 50-50. It looks like you're using a $2.75 gas deck and obviously we've got base differentials on top of that. So what are you assuming for the gas recovery? And would that change your trajectory if things remain as depressed as they are now?

Second one, very quickly, Pierre, can you tell us what the sustaining capital is and how that evolves? There's a lot of focus on returns on capital, but we all know that the industry takes write-offs occasionally. The free cash flow is what matters. What's the sustaining free cash flow, which means we need to know what the sustaining capital is in your plan?

Mike Wirth
Yes. So short answer is mix guidance hasn't changed 50%, 25%, 25%.

Pierre Breber
The chart doesn't have non-op JV. It's equity and royalty taken in kind.

[On sustaining capital] We're sustaining and growing the enterprise. That's how we think about it, doubling free cash flow, growing cash from ops 9%, keeping capital flat. We need to sustain and grow cash flows. We're doing that and we're going to return that to shareholders over time.

Mike Wirth
We have run out of time on our live stream. I want to thank everybody for your attendance here. I realize traveling is something that everybody has had to be very thoughtful about in joining us today, so thank you very much for your interest in the company. Travel safely and we'll see you soon.